CONWEST EXPLORATION COMPANY LIMITED

ROB

FORTY-SECOND ANNUAL REPORT DECEMBER 31-1980

Forty-second Annual Report of
CONWEST
Exploration Company Limited

CONWEST EXPLORATION
COMPANY LIMITED

1010 — 85 Richmond St. West
Toronto, Ontario M5H 2G1

INTERIM REPORT
JUNE 30, 1980

AR47

Financial

Consolidated net income for the six-month period ending June 30, 1980 amounted to $9,055,000 or $1.80 per common share as compared to $2,540,000 or $0.51 for the corresponding 1979 period. Working capital increased by $8,607,000 to total $30,172,000 at period end.

Consortina Incorporated

Consortina Incorporated generated a profit on operations of $631,000 before depreciation and amortization of $324,000 on sales $6,291,000 which is a slight decrease from the corresponding 1979 period. It is anticipated that operating results will improve in the second half.

Mining Exploration Interests

The Conwest Canadian Uranium Exploration Joint Venture is continuing comprehensive exploration of the Geikie River, Saskatchewan and the Cambrian Lake, Quebec properties. Geophysical surveys and detailed boulder prospecting are in progress and additional diamond drilling is planned for both properties later this season.

Bay Copper Mines Limited, an 80% owned subsidiary, has received an additional advance royalty of $250,000 from Texasgulf Inc. with respect to the Half Mile lead-zinc-silver deposit in the Bathurst area of New Brunswick. The results of the deep diamond drilling programme conducted over the last year are currently being evaluated to determine the best method for further exploration of this deposit.

Confirmatory drilling is being conducted on the Ruby Creek molybdenum property of 26% owned Adanac Mining and Exploration Limited by Placer Development Limited. Marketing considerations remain the major determinant for an early production decision for the project.

Production of 309,944 pounds U_3O_8 at the 49% owned Madawaska Mine held through Consolidated Canadian Faraday Limited was as budgeted for the period. Average price, net of discount, received from foreign and domestic sales during the period was $41.58 per pound U_3O_8. Satisfactory profit margins and cash flow are currently being generated. It is anticipated that prices to be received for second half sales should decrease by approximately $2.50 per pound, reflecting the adverse price trend in the uranium market. The reorganization of Faraday's interest in Madawaska Mine has been completed effective July 31, 1980. Faraday now owns a direct interest in the mine and facilities and receives 49% of the operating profits. Completion of this reorganization facilitates reinvestment of cash flow from this operation.

Oil and Gas Interests

Expansion of the Company's oil and gas interests continues to be a high priority. Several potential reserve acquisitions were reviewed and an agreement was made to acquire a 2.3% interest in 20 wells in a producing oil field in central Alberta. The Company is continuing to build on its land and exploration interests directly and through the Polaris Petroleums Ltd. programme.

On behalf of the Board

J. C. Lamacraft,
President.

Toronto, Ontario
August 25, 1980

CONWEST EXPLORATION
COMPANY LIMITED

CONSOLIDATED STATEMENT OF INCOME
For the Six Months Ended June 30
(Unaudited)

	1980	1979
RESOURCE OPERATION:		
Dividend and interest income	$ 2,452,000	$ 1,458,000
Oil and gas production	858,000	594,000
Gain on disposal of investments	11,348,000	3,280,000
Gain on disposal of mineral exploration interests	750,000	—
Royalty and other income	383,000	184,000
Company portion of earnings of companies accounted for on the equity basis	622,000	—
	16,413,000	5,516,000
General and administrative	1,530,000	528,000
Mineral exploration	120,000	378,000
Oil and gas production	88,000	77,000
Depletion and depreciation	272,000	197,000
	2,010,000	1,180,000
Income from resource operation before undernoted items	$14,403,000	$ 4,336,000
RESTAURANT AND HOTEL OPERATION:		
Revenue	$ 6,291,000	$ 5,869,000
Cost of sales and administrative expenses	5,660,000	5,143,000
Depreciation and amortization	324,000	336,000
	5,984,000	5,479,000
Income from restaurant and hotel operation before undernoted items	$ 307,000	$ 390,000
TOTAL INCOME FROM OPERATIONS BEFORE UNDERNOTED ITEMS	$14,710,000	$ 4,726,000
Interest on long-term debt	212,000	198,000
Income before minority interest	14,498,000	4,528,000
Minority interest in net income of consolidated companies	5,203,000	1,795,000
NET INCOME FOR THE PERIOD	9,295,000	2,733,000
Provision for dividends on preferred shares	240,000	193,000
NET INCOME APPLICABLE TO COMMON SHARES	$ 9,055,000	$ 2,540,000
EARNINGS PER COMMON SHARE (after preferred share dividends and after giving retroactive effect to the June, 1980 2:1 change in common share capital)	$1.80	$0.51

CONWEST EXPLORATION
COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Six Months Ended June 30

(Unaudited)

	1980	1979
RESOURCE OPERATION:		
Source of funds:		
Operations	$ 2,179,000	$ 1,223,000
Disposal of investments and reduction in advances	28,423,000	10,542,000
Issue of common shares by consolidated company	158,000	—
	30,760,000	11,765,000
Application of funds:		
Investments	17,568,000	4,591,000
Oil and gas interests	1,520,000	1,090,000
Cost of preference shares purchased for cancellation by consolidated company	944,000	12,000
	20,032,000	5,693,000
Net funds from resource operation before undernoted items	$10,728,000	$ 6,072,000
RESTAURANT AND HOTEL OPERATION:		
Source of funds:		
Income from operations	$ 631,000	$ 756,000
Purchase of fixed assets and goodwill	(1,519,000)	(253,000)
Net funds from (applied to) restaurant and hotel operation before undernoted items	$ (888,000)	$ 503,000
Total increase in working capital before undernoted items	$ 9,840,000	$ 6,575,000
Increase (decrease) in long-term debt (net)	398,000	(132,000)
Dividends paid by the company	(745,000)	(193,000)
Dividends paid by consolidated companies	(849,000)	(538,000)
Interest expense	(212,000)	(198,000)
Issue of common shares	175,000	—
Net increase in working capital	8,607,000	5,514,000
Working capital at beginning of period	21,565,000	21,344,000
Working capital at end of period	$30,172,000	$26,858,000

Printed in Canada

CONWEST EXPLORATION COMPANY LIMITED

Interim Report

June 30, 1980

Forty-second Annual Report of

CONWEST Exploration Company Limited

DIRECTORS	W.C. CAMPBELL	Toronto, Ontario
	E.B. CONNELL	Spencerville, Ontario
	M.P. CONNELL	Toronto, Ontario
	H.N. HOTCHKISS	Calgary, Alberta
	S.E. JAMIESON	Toronto, Ontario
	J.C. LAMACRAFT	Toronto, Ontario
	C.C. COOLICAN	Toronto, Ontario
OFFICERS	M.P. CONNELL	Chairman of the Board
	J.C. LAMACRAFT	President and Chief Executive Officer
	C.C. COOLICAN	Executive Vice-President
	J.A. KALMAN	Vice-President
	S.L. KOROLUK	Vice-President Production, Oil and Gas Division
	J.T. McCOY	Vice-President Exploration, Oil and Gas Division
	J.A. PATTERSON	Vice-President and Secretary
	J.S. ADAMS	Treasurer
TRANSFER AGENT AND REGISTRAR	Montreal Trust Company	Toronto, Ontario
BANKERS	The Toronto-Dominion Bank	Toronto, Ontario
AUDITORS	Clarkson Gordon	Toronto, Ontario
SOLICITORS	Davies, Ward & Beck	Toronto, Ontario
	McCarthy & McCarthy	Toronto, Ontario
HEAD OFFICE	Suite 1010, 85 Richmond Street West	Toronto, Ontario
CALGARY OFFICE	320, Selkirk House 555, 4th Avenue S.W.	Calgary, Alberta
ANNUAL MEETING	June 25, 1981	3:00 p.m. Simcoe A Room, The Board of Trade of Metropolitan Toronto, Third Floor, Adelaide Street West entrance, First Canadian Place, Toronto, Ontario

REPORT OF THE DIRECTORS

To the Shareholders
Conwest Exploration Company Limited

Your Directors are pleased to present your Company's Annual Report for the year ended December 31, 1980.

1980 was a successful year for the Company and its subsidiaries. Net income for 1980 was $14,726,000 or $2.84 per common share as compared to $6,219,000 or $1.16 per common share in 1979. The Company's long-term and portfolio investments in mineral properties and companies were the major source of income and asset growth as has been the case for the past several years. Book value of total assets increased by $15,854,000 from $62,868,000 to $78,722,000. Working capital, together with the quoted market value of marketable securities, totalled $58,882,000 at period end.

The progressive development of your Company's oil and gas ~~production and~~ exploration interests continued during 1980. Approximately $3,500,000 was expended by the Conwest-Mogul oil and gas exploration joint venture on land acquisition and exploratory drilling. The joint venture participated in the drilling of 28 exploratory wells. In addition, one small reserve acquisition was made during the year. The results of the current year's activities and year-end reserves are set out in the oil and gas section of this report.

The budget for the Conwest-Mogul oil and gas exploration joint venture has been increased to approximately $6,000,000 for 1981. It is anticipated the joint venture will participate in 1981 in the drilling of over 50 exploratory wells. In addition, Conwest-Mogul have taken a 3.125% working interest in a U.S. $15,000,000 oil and gas exploration program involving 17 prospects in Texas and Louisiana.

The National Energy Program, introduced in the fall of 1980, is ostensibly favourable to Canadian owned companies and one of its stated intentions is to promote "Canadianization" of the oil and gas industry. Conwest currently has a Canadian ownership rating of in excess of 90% and, therefore, will benefit from the positive aspects of the NEP. As well, your management believes that the need to fully develop Canada's energy resources will eventually lead to a resolution of the federal-provincial dispute over the revenue sharing and pricing provisions of the NEP. For these reasons, your Company continues to be committed to building significant oil and gas reserves through acquisition and exploration.

Conwest owns or has a significant interest in a number of important prospective undeveloped mineral interests and exploration projects. The current year's activities and the year-end status of these interests are outlined in the Mining Exploration Interests section of this report.

The Company has over the last two years de-emphasized general grass roots mineral exploration. However, our historical open-door policy as to consideration of mineral resource properties and prospects of merit has been maintained. During the year several acquisitions and a number of new investments in mining companies or in developing mining situations were considered. The Company is in a strong financial position to undertake or to participate in the development, where warranted, of its existing interests and to undertake or participate in new mining investments.

At year-end 1980, the Company divested itself of the operating assets of Consortina Incorporated, the Company's hotel and restaurant subsidiary. Certain real estate interests were retained. Subsequent to year-end two of these have been sold and an agreement in principle has been reached for the sale of a third property contingent on rezoning. Largely because of unsatisfactory returns on investment your Board favoured divestment in the belief that the capital can more effectively be employed in projects that would yield a higher return and be more compatible with our mineral resource activities.

During 1980, the Company's share capital was restructured. The issued common shares were changed, share for share, into an equal number of Class A and Class B shares equivalent in all respects except voting rights. The details of the restructuring of share capital is more particularly set out in note 7 to the consolidated financial statements.

The Company has recently announced a take-over bid for all the shares of Mogul not held by it. Conwest has offered to exchange 1.75 Class B common shares of Conwest for each common share of Mogul and 2 Class B common shares of Conwest for each Series A preference share of Mogul. Details of the offer to Mogul shareholders are contained in an Offering Circular dated May 13, 1981. A copy had been mailed to all Conwest shareholders for their information.

Your Board and management believe that by increasing Conwest's interest in International Mogul, the activities and assets of both companies can be further integrated enhancing the opportunities for the growth and development of both companies and making possible investments which are beyond the financial capacity of either company to support on its own account. It is also believed that the financial strength which would result from further integration of the companies' activities and interests, would make Conwest shares more attractive to investors, thus improving Conwest's access to the public equity markets. The further integration of the assets and operations of the companies would also simplify corporate and tax planning and the planning and completion of future acquisitions and related debt financings. The possible approximate tripling of the number of Conwest B Shares available to the investing public is also considered a desirable outcome of the Offer.

During the year the Company resumed payment of common share dividends. The dividend policy established by your Board was to declare semi-annual dividends at an initial rate of $0.10 per common share and to consider increases in the dividend rate as circumstances permit. Dividends of $0.10 per common share were paid July 1, 1980 and January 1, 1981 pursuant to this policy.

The Company has experienced excellent growth in assets and earnings performance over the last several years and, consequently, the capacity to undertake new investments has been considerably strengthened. Further, the process of simplification of the Conwest Group structure, which has been undertaken and is continuing, has improved the Company's ability to raise additional equity capital and debt financing should present resources be unable to support future acquisitions and projects.

The principal priorities for future growth remain as stated in last year's Annual Report: continued emphasis on long-term and portfolio investment in mineral properties and companies, and continued build-up of oil and gas interests both through reserve acquisitions and increased exploration exposure.

The officers and directors of your Company received with sadness the news of the passing of Frederick M. Connell on September 9, 1980. Mr. Connell, the founder of this Company, was widely respected and admired throughout the Canadian mining industry. His wise advice, counsel and presence, which we enjoyed through his 96th year, will be deeply missed.

Your Directors wish to thank, on your behalf, the employees of the Company and its subsidiaries, who have again made the past year a successful one.

On behalf of the Board,

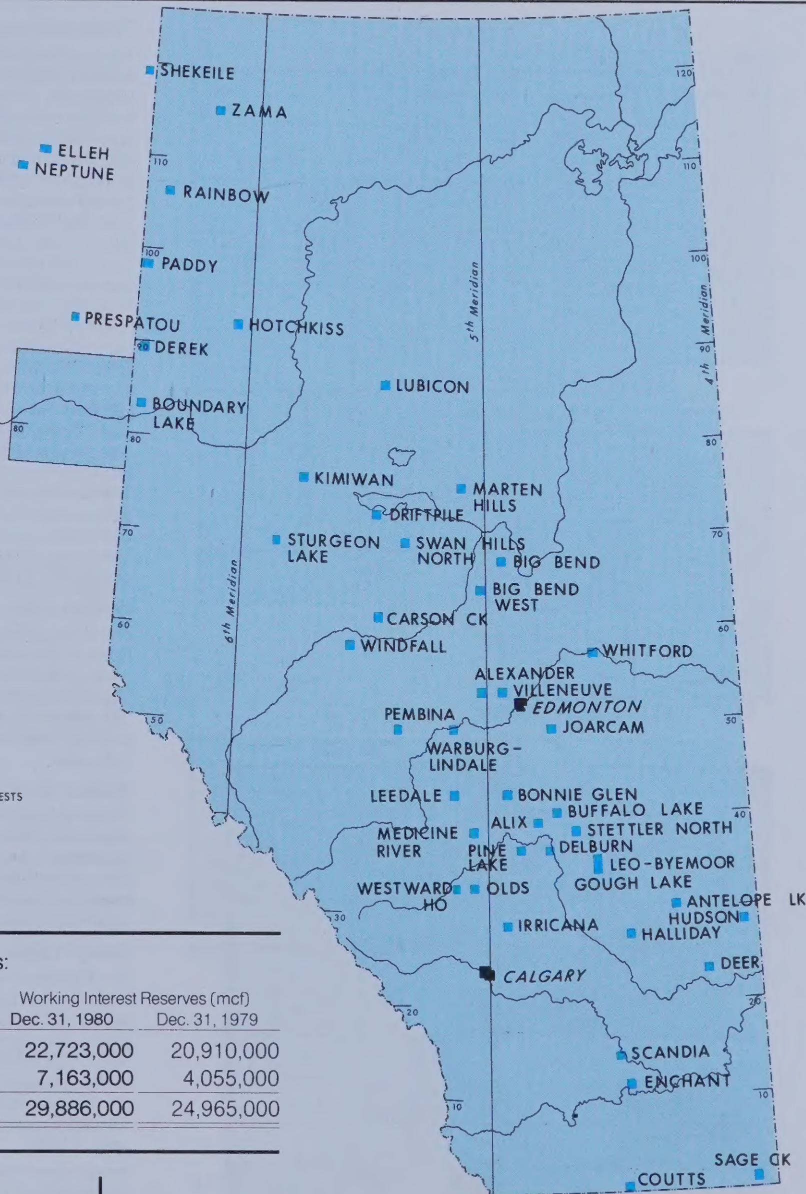
M.P. Connell,
Chairman

J.C. Lamacraft,
President and Chief Executive Officer

Toronto, Ontario
May 11, 1981

OIL AND GAS INTERESTS

PRINCIPAL AREAS OF ACTIVITY



ALBERTA — N.E. BRITISH COLUMBIA

■ CROWN FREEHOLD OR OTHER LEASE INTERESTS

Summary of Proven and Probable Gas Reserves:

	Working Interest Reserves (mcf) Dec. 31, 1980	Dec. 31, 1979
Proven reserves	22,723,000	20,910,000
Probable reserves	7,163,000	4,055,000
	29,886,000	24,965,000

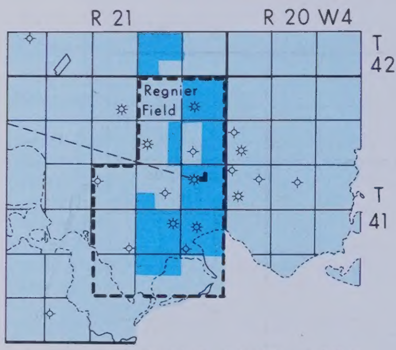
Forecast Net Cash Flow After Operating and Capital Expenditures and Royalties

	Undiscounted	Discounted At 15%
Proven reserves	$69,657,000	$18,414,000
Probable reserves	$23,648,000	$ 4,233,000
	$93,305,000	$22,647,000

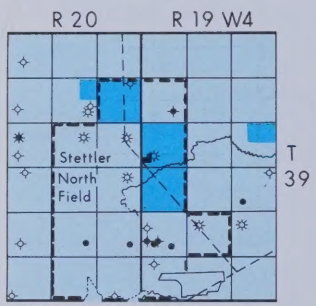
Exploration and Development Expenditures

	1980	1979
Acquisition of Producing Assets	$ 328,207	$1,557,074
Land	1,634,602	278,725
Exploratory Drilling	1,578,742	300,139
Plant and Equipment	184,370	99,957
Other	169,834	204,807
	$ 3,895,755	$ 2,440,702

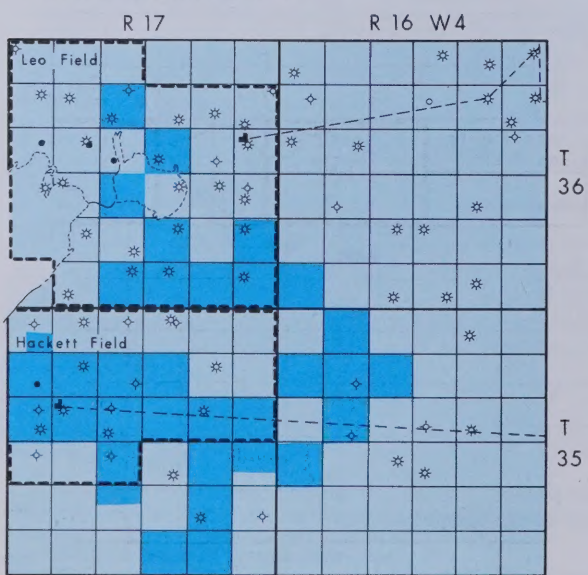
PRODUCTION AND RESERVES



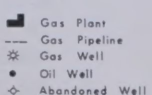
BUFFALO LAKE AREA



STETTLER NORTH AREA



GOUGH LAKE & LEO-BYEMOOR AREAS



Production and Reserves

Total working interest gas production for the year was 739 million cubic feet compared to 874 million cubic feet in 1979. The decrease in production is mainly attributable to the reduction of the Company's working interest in two producing gas wells at Leo-Byemoor as a result of conversion rights exercised by other parties upon payout of the wells. It is anticipated that present levels of gas production will be maintained or increased in 1981. Working interest oil production for the year was 3643 barrels compared to 2281 barrels in 1979. The majority of the Company's production comes from wells located in the Buffalo Lake, Gough Lake, Leo-Byemoor and Stettler North areas of Central Alberta.

Cash flow from oil and gas operations for the year was $1,649,000 compared to $1,364,000 in 1979.

Proven plus probable reserves at December 31, 1980 were 29.886 billion cubic feet (gas plus oil in gas equivalent units) compared to 24.965 billion cubic feet (gas plus oil in gas equivalent units) at December 31, 1979. The reserve increase is attributable to a producing property acquisition in the Wayne-Rosedale area, development drilling in the Leo-Byemoor area and exploratory drilling in the Alix, Beiseker, Bonnie Glen, Derek, Joarcam, Leedale and Thorsby area. The discounted present value (at 15%) of the net cash flows from these reserves has been estimated to be $22.65 million.

The reserve and forecast future cash flow information is derived substantially from an independent consultant's report prepared for the Company as at December 31, 1981. Reserves have been assigned to twenty-one properties, of which eight are presently under contract and on production. These properties are all located in the Province of Alberta.

Buffalo Lake

The Company has an interest in 4,160 acres (783 net acres) in the Buffalo Lake area as well as an interest in three producing wells (0.69 net wells), one shut-in well (0.16 net wells) and the Buffalo Lake gas plant. The Company's working interest production from the area in 1980 was 181 million cubic feet and the Company's working interest proved plus probable reserves in the area at December 31, 1980 were 3.33 billion cubic feet.

Stettler North

The Company has an interest in 2,240 acres (993 net acres) in the Stettler North area as well as an interest in one producing well (0.43 net wells) and a gas plant. The Company's working interest production from the area in 1980 was 217 million cubic feet and the Company's working interest proved plus probable reserves in the area at December 31, 1980 were 1.48 billion cubic feet.

Gough Lake—Leo Byemoor

The Company has an interest in 21,280 acres (6,082 net acres) in the Gough Lake/Leo-Byemoor area as well as an interest in four producing wells (1.17 net wells), eleven shut-in wells (2.76 net wells) and two gas plants. The Company's working interest production from the area in 1980 was 1,288 barrels of oil and 250 million cubic feet of gas. The Company's working interest proved plus probable reserves in the area at December 31, 1980 were 22,000 barrels of oil and 12.31 billion cubic feet of gas. The Company participated in the drilling of two successful wells in the area in 1980.

Summary of Operating Results

	1980	1979
Oil and gas revenues, net of royalties	$ 1,494,000	$ 1,401,000
Deferred income under take or pay provision of gas contracts	335,000	194,000
	1,829,000	1,595,000
Operating expenses	180,000	231,000
Cash flow from operations	$ 1,649,000	$ 1,364,000

OIL AND GAS EXPLORATION

During 1980 the Company continued to expand its oil and gas exploration activity. Exploration staff was hired with the objective of increasing the Company's exploration activity through land acquisitions and exploratory drilling.

At year end, the Company's land inventory had increased by 200% from year-end 1979 to total 61,111 net acres. These lands have lease terms ranging up to nine years and provide the Company with a prospect inventory and representation in a variety of areas where industry is currently active. The Company plans to aggressively increase its land holdings during 1981 through the farm-in route as well as bidding at Crown land sales.

Drilling activity increased during 1980 by 110%. The Company participated in the drilling of 32 wells in Alberta, British Columbia, Saskatchewan and Manitoba. From this program, one well was completed as an oil well, 16 as gas wells and 15 wells were abandoned, for a success ratio of 53%. The Company's exploration program was primarily directed towards Alberta. Exploration drilling will increase during 1981 as the Company continues to develop and drill prospects on its own acreage as well as participate with other companies on joint venture operations. Exploration expenditures will be directed towards projects which have good reserve potential, a minimum of sales delay and represent an excellent return on investment.

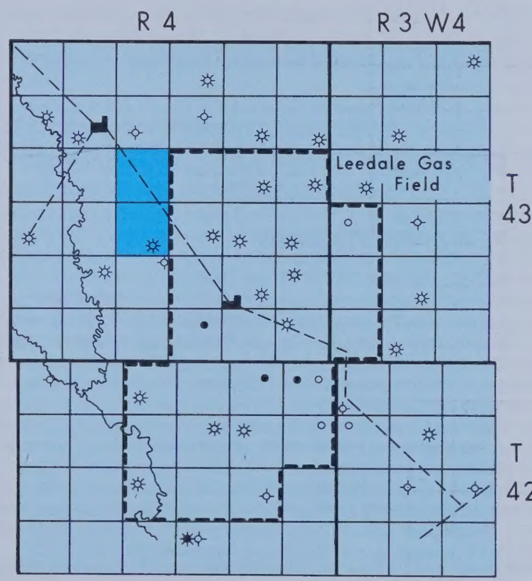
Additional staff will be added in 1981 to provide the technical support needed to direct an expanding exploration program.

Leedale

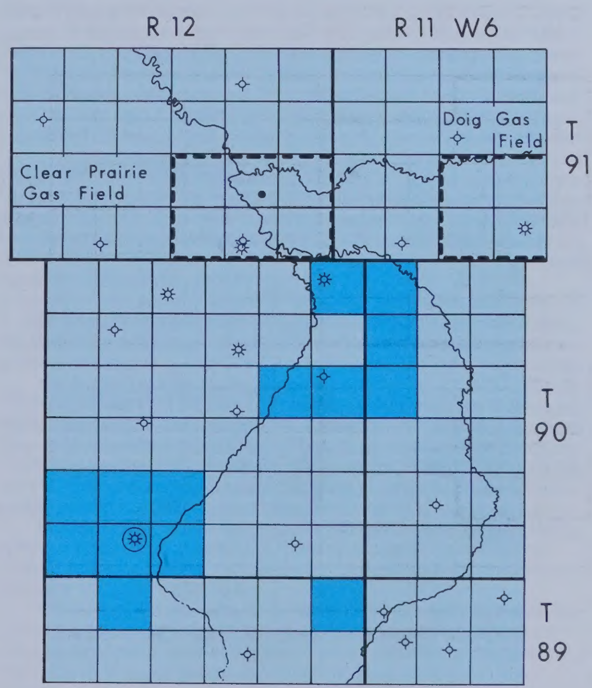
During 1980 the Company participated in the drilling of a successful multi-zone gaswell PanCon et al Leedale 2-16-43-4 W5M in the Leedale area of Alberta. This well flowed gas to surface from the Upper Mannville sands, Basal Mannville sands and the Pekisko carbonates. The well is located on a 1280 acre lease in which the Company holds a 7.5% working interest. The undrilled section immediately north of the well location appears, by subsurface control, to have equal potential to the productive section. These lands are located in close proximity to gas plants and pipeline facilities. The well is currently shut-in waiting on a market for the gas.

Derek

The Company holds working interests varying from 12.5% (after payout) to 25% in 10,240 gross acres in the Derek area of northwestern Alberta. During 1980 the Company participated in the drilling of the dual zone gaswell, Northstar Brenda Derek 10-5-90-12 W6M. The well is productive in the Cretaceous Gething sands and the Jurassic Nordegg sands. The well was drilled on lands farmed out by Sulpetro. Additional lands were subsequently acquired at Crown land sales. The well is currently shut-in waiting for gas marketing conditions to improve.



LEEDALE AREA



DEREK AREA

Land Holdings at Dec. 31, 1980

	1980	1979
Gross Acres	267,100	74,219
Net Acres	61,111	20,524

Drilling Activity

Wells	1980	1979
Oil	1	1
Gas	16	8
Dry	15	6
Total	32	15

FINANCIAL REVIEW

Consolidated net income for the year amounted to $14,726,000 or $2.84 per common share versus 1979 net income of $6,219,000 or $1.16 per common share.

Working capital decreased to $20,059,000 ($3.97 per share) at year-end 1980 from $21,565,000 ($4.31 per share) at the end of 1979.

Total assets at year-end increased to $78,722,000 from $62,868,000 in 1979 and book value per common share increased to $7.72 per share from $5.11 per common share in 1979.

LONG TERM INVESTMENTS

Adanac Mining and Exploration Ltd.

Conwest and its subsidiary companies hold a 29.1% interest in Adanac which owns the Ruby Creek property, a large low grade molybdenum deposit in northwestern British Columbia. The property is under option to Placer Development Limited which can earn a 70% interest in the property by undertaking on or before December 31, 1983 to finance the property to production.

During the past two years, $3.4 million has been spent on geological and engineering work and environmental studies. Currently, geologic reserves are estimated to be 270 million metric tons grading .053% molybdenum and mineable reserves are estimated to be 201 million metric tons grading .059% molybdenum. The latter category has a 1.6 to 1 waste to ore ratio. At the presently projected mining rate of 15,000 metric tons per day, a mine would have a life in excess of 35 years. Molybdenum prices and market considerations remain the major factor in determining whether the project will be brought into production in the near future.

The Iron Bay Trust

Chimo Gold Mines Limited, Conwest's 71%-controlled subsidiary, holds 1,000,000 units of The Iron Bay Trust. The Trust holds an 80% reversionary interest in the Griffith Iron Ore Mine, near Red Lake, Ontario, leased to the Steel Company of Canada, Limited until April 30, 2040. The Trust receives a royalty based on the tonnage of iron ore pellets shipped from the mine and the royalty rate changes proportionately with changes in the price for iron ore pellets. The mine commenced production in 1969 and the production rate has stabilized at approximately 1,500,000 tons of iron ore pellets per annum. The royalty rate was increased in early 1980 by 8.6% from the year-end 1979 level, and has been further increased by 9.3% in early 1981. As a result, royalty income to Chimo increased to $666,200 in 1980 from $596,300 in 1979.

Consolidated Canadian Faraday Limited

Conwest, through International Mogul Mines Limited holds a 31.1% controlling interest in Consolidated Canadian Faraday Limited. Faraday's net income for the year amounted to $2,087,000 as compared to $2,379,000 in 1979. Net income was adversely affected by a sharp decrease in the Company's share of income from the Madawaska uranium operation. This decrease in net income was substantially offset by increased investment gains and by the sale of the company's 51-unit apartment complex in Ft. Myers, Florida. The former resulted from reduced mine operating margins and a substantially increased depreciation charge, both of which are directly linked to the steep decline in the U_3O_8 price which has taken place over the course of the year.

During 1980, Faraday converted its 49% shareholding in Madawaska Mines Limited into a 49% direct interest in the Madawaska uranium mine-mill near Bancroft, Ontario. The mine-mill operated according to budget last year; from 397,065 tons milled during the year, 610,792 lbs. of U_3O_8 was produced. The average net price received during the year from foreign and domestic sales decreased from $43.57 per lb. in 1979 to $40.53 per lb. in 1980. The effect of this price decrease was to reduce Faraday's share of the Joint Venture's operating profits in 1980 to $871,000 from $3,842,000 in 1979. The sharp drop in prices received for the Company's U_3O_8 production was a reflection of the general decline in uranium prices worldwide. Prices in 1981 have fallen even lower, to the point where it is estimated that "about half of all U.S. producers could not economically justify selling at today's prices, even on a marginal basis." Unfortunately, the short term outlook for prices is still uncertain, due to stagnant demand for U_3O_8, built-in overcapacity of U_3O_8 productive facilities, and the outlook for ample uranium resources.

In the face of these uncertainties, the Madawaska Mines Limited-Consolidated Canadian Faraday joint venture and AGIP have negotiated a firm price of $32.75 for 1981 and 1982 deliveries from the Madawaska Mine. Although the price is significantly lower than that obtained by Madawaska during the past two years, this fixed price should allow the joint venture to generate a small positive cash flow from operations during the two-year period provided that certain cost and grade control objectives that are currently considered attainable are in fact achieved. Most important, however, is that the renegotiated price ensures the continued operation and development of the mine throughout what hopefully will be the worst part of a difficult marketing period.

Despite the negative outlook for its uranium assets, Faraday is in a healthy financial position with working capital of $8,871,000 at year-end. It also continues to hold its 11.017% interest in a shallow gas field in Alberta, its controlling interest in Hydra Explorations, which company has two low grade gold properties, and its 38.6% interest in Prairie Potash Limited, which company has important Manitoba potash holdings. Faraday will continue to focus on new projects and investments in the Canadian resource sector to expand and diversify its earning's base.

REAL ESTATE INTERESTS

Consortina Incorporated ("Consortina") was, until the end of 1980, the restaurant and hotel subsidiary of the Conwest Group, and operated a number of restaurants, lounges and accommodation units within the Toronto area.

On December 31, 1980 Consortina sold its operating interest in this business, retaining real estate on which two of the operations were carried out. The two parcels were the lands in northwest Metropolitan Toronto on which the Ascot Inn is located and the site of The Ports, a restaurant operation in downtown Toronto.

On April 30, 1981, sale of the Ascot property was completed. A sale agreement for the Bemelman's property, wholly-owned by Conwest, has also been signed and the sale is scheduled to be completed in June, 1981. The Ports property is the subject of a rezoning application to develop an exclusive condominium residential development. Should the development proceed, The Ports property will be sold under the terms of an agreement in principle reached with the developer.

MINING EXPLORATION INTERESTS

Direct Interests

The current status of the Conwest Group's mineral exploration interests is outlined below. During 1980, Conwest, on behalf of itself, International Mogul Mines Limited, Chimo Gold Mines Limited, Consolidated Canadian Faraday Limited and their subsidiary and affiliated companies, participated in various base metal and uranium exploration programs. Total exploration expenditures of the group amounted to $350,000, while expenditures by others on joint projects approximated $2,900,000, thus resulting in total exploration exposure of $3,250,000.

The Conwest Group holds a 12.5% operating interest and a 3% gross production royalty in the Conwest Canadian Uranium Exploration Joint Venture which was formed in 1975 with Eldorado Nuclear Limited and three European utilities. The Joint Venture holds 291,000 acres in the Athabasca Basin in Saskatchewan and 106,500 acres in Quebec. The Joint Venture has expended in excess of $11 million to December 31st, 1980. Additional exploration funds are provided by the Saskatchewan Mining Development Corporation, a one-third participant in all the lands in Saskatchewan and by Denison Mines Limited, a farmee on certain of the Saskatchewan lands. Eldorado Nuclear now manages the program. Results to date have been inconclusive. Programs are being continued in 1981 with the major portion of the annual budget being devoted to the Quebec holding, where several new uranium-bearing boulder trains and a second uranium occurrence have been discovered.

The Conwest Group holds the Lac Des Mille Lacs property which is under option to Riocanex of Toronto. In addition, the Conwest Group holds three other properties in New Brunswick which are farmed out to Brunswick Mining and Smelting Co. Ltd. Additional work including diamond drilling is planned for 1981.

Conwest has a 22.79% interest in the Lessard Joint Venture which controls 91 mining claims in the Troilus-Frotet Lake region, approximately 75 miles north of Chibougamau, Quebec. The joint venture is managed by Selco Mining Corporation Limited. Exploration work to date has outlined a small mineral deposit estimated to contain 1.0 million tons averaging 1.8% copper, 3.3% zinc, 1.12 oz. silver and .02 ounces gold per ton. A limited exploration program is planned for 1981 utilizing advanced electromagnetic techniques designed to identify new zones and extensions to the present known mineralization.

Conwest owns a 1.25% net smelter return royalty interest in several hundred claims which were sold to Pine Point Mines Limited in 1974. Recent exploration by Pine Point Mines Limited on its holdings northeast of the A-55 deposit has disclosed the presence of a new lead-zinc deposit of substantial tonnage. Part of this deposit extends into the Conwest royalty acreage but no tonnage or grade information is available as yet.

Conwest owns an 80% interest in 25 mining claims comprising 1,000 acres located in Lesseps and LaPotardiere townships in Gaspe, Quebec which are under option to IMC Canada subject to a 5% gross royalty interest. The property contains reserves in excess of 50,000,000 tons of high quality olivine, which is a refractory and fluxing material used in the refractory material and steel industries. Conwest and IMC Canada have for the past several years been negotiating an agreement with the Quebec Government to develop this deposit. However, a provincial park boundary must be relocated before this project can proceed.

International Mogul controls two development licences totalling about 2,720 acres in the Lake Ainslie area of Cape Breton Island, Nova Scotia. The property contains several barite-fluorite deposits with drill indicated reserves aggregating 5.0 million tons of mineable material grading 34% barite and 17% fluorite. There is potential to expand these reserves. International Mogul has recently entered into discussions with Armco Mineral Exploration Company Limited with a view to further investigation and evaluation of the feasibility of exploiting these deposits.

International Mogul maintains its interest in certain former producing mineral properties, the Dyno and Lorado uranium properties at Bancroft, Ontario and Beaverlodge, Saskatchewan, respectively, and the Coldstream copper property in the Thunder Bay area of Ontario.

International Mogul holds an 82.5% interest in two leases totalling 2,204 acres in Langmuir Township, Porcupine Mining Division of Ontario. The property contains drill indicated reserves of 700,000 tons of approximately 1% nickel. The deposit is about two miles southeast of the former producing Noranda/Inco Langmuir Joint Venture project which is equipped with a 700 ton a day milling plant. If the Noranda/Inco operation resumes, it may be feasible to enter into a custom milling or joint venture arrangement for the exploitation of the International Mogul deposit.

Subsidiaries or Effectively Controlled Companies of Conwest Exploration Company Limited

Bay Copper Mines Limited (79.6% owned)

Bay Copper's New Brunswick property is currently under investigation by Billiton Canada Limited in a joint venture with Texasgulf Inc. The Bay Copper property consists of mining lease #1010 located in the Half Mile Lake area, Northumberland County, New Brunswick.

Exploration to date, including the most recent work by Billiton, has established a drill indicated reserve containing approximately 11.2 million tons of an undiluted grade of 0.17% copper, 2.60% lead, 7.51% zinc and 0.90 oz silver per ton to a vertical depth of 3500 feet below surface. The deposit is open at depth. Investigations and cost analyses are currently underway to determine the feasibility of an underground evaluation of the deposit. Such an investigation would provide the data necessary for a detailed economic feasibility study.

Bay Copper holds a 10% net operating profits interest without any charge or deduction for interest or capital and is entitled to advance royalties of $250,000 per annum. To date $500,000 in advance royalties has been received.

Chance Mining and Exploration Company Limited (36.0% interest)

Chance Mining owns 10 groups of claims in the Timmins area of Ontario of which five groups are under option to Texasgulf Canada Limited. Of particular interest is the claim group in the south part of Carnegie Township, located about 8,000 feet north of the Kidd Creek Mine of Texasgulf. At least 25 drill holes have been completed by Texasgulf, totalling in excess of 27,000 feet of drilling. The drilling has revealed a rhyolitic volcanic centre favourable for base metal mineralization but to date only low values have been obtained. Texasgulf advises that some additional drilling will continue along strike and to depth of this volcanic centre to complete their assessment of the ore potential of the property.

Coppermine River Limited (31.2% interest)

Coppermine River holds 107 mining claims in the Coppermine River area of the N.W.T. The property was actively explored from 1966 to 1968 and has since been idle. Coppermine River has outlined a deposit to a vertical depth of 600 feet with 4,162,433 tons of defined mineral reserves grading 2.96% copper, after allowing for a 10% dilution. While the property is not currently economic, additional exploration potential exists. Future development will depend on increasing reserves, establishing transportation and infrastructure in the area and higher commodity prices.

Hucamp Mines Limited (37.8% interest)

Hucamp's principal asset is 19 claims held under either patent or licence of occupation comprising 767 acres located in Gemmell Township, Manitouwadge Lake Area of Northern Ontario. These claims adjoin the eastern part of the Geco property of Noranda Mines Limited, which has been in continuous production since 1957.

The favourable geological unit, which hosts the Geco ore deposits, extends into and may traverse the Hucamp property. It is considered unlikely, however, that the main Geco ore body extends into the Hucamp property.

The potential of the Hucamp property rests with defining a repetition of the Geco type ore at depth. It is not considered practical to explore the property from surface at this time. Future evaluation of the potential of the Hucamp property will depend on gaining access to it from the underground workings of the Geco property.

Ketza River Mines Limited (64.6% owned)

Ketza River owns 23 mining leases and 22 mining claims in the Watson Lake Mining District, Yukon Territory. Ross River, the nearest town, is 32 air miles north of the property. Exploration activity during 1958 and 1959

MINING EXPLORATION INTERESTS

established the presence of several gold bearing sulphide deposits. One of these, the Peel 3 deposit, is estimated to contain 77,500 tons grading 0.30 ounces gold per ton. Prior exploration activities were limited to prospecting and shallow diamond drilling. The property has good potential for the expansion of reserves and modern exploration techniques may lead to new discoveries. Ketza River is attempting to negotiate a farm-out arrangement on this property for a significant work commitment.

Liard Fluorspar Mines Limited (47.5% interest)

Liard Fluorspar holds 45 mineral claims located in the Liard Mining Division of British Columbia. Exploration during the early 1970's established geological reserves of about 2.6 million tons of fluorspar mineralization averaging 30% fluorite in several deposits. Additional potential exists to expand these reserves. The outlook for fluorite appears promising in the next decade. A re-evaluation of this project will be undertaken over the next year.

Vol Mines Limited (33.3% interest)

Conwest owns 33⅓% of Vol, while Cominco Limited owns the balance and is responsible for financing all exploration and development expenditures. Vol's only asset is 24 mining claims located in the Yellowknife area, Northwest Territories which are contiguous to the north of Cominco's Con-Rycon Mine. Exploration and development of the Vol property is being carried out by Cominco from the underground workings of the Con-Rycon Mine at depths of between 2,900 and 4,300 feet.

The Vol property has produced limited tonnage grading approximately 0.50 oz gold per ton. A substantial development program is warranted in order to establish the reserve potential of the property. Cominco has recently improved underground access to the Vol property and has advised Vol that additional exploration is planned.

West Graham Mines Limited (48.0% interest)

West Graham owns 10 patented lots comprising 1,757 acres in Graham Township, Sudbury Mining Division, Ontario. This property is located six miles west of Inco Limited's Creighton Mine and one mile east of the Lockerby Mine of Falconbridge Nickel Mines Limited. Results of exploration during 1969 established total undiluted geological reserves of approximately 4.3 million tons of material grading 0.52% nickel and 0.33% copper to a depth of 1,300 feet. The mineralization extends to the adjoining holdings of Inco and Falconbridge and it appears likely that the West Graham deposit will be of interest to either or both of these companies in the future.

Other Mineral Exploration Interests

Muscocho Explorations Limited (8.5% interest)

Conwest holds 8.5% of Muscocho Explorations Limited which company is developing its Montauban, Quebec gold deposit jointly with Soquem. Drill-indicated, mineable reserves were estimated to be 350,000 tons averaging 0.193 oz gold per ton and 0.58 oz silver per ton. Costs of the underground pre-development program to confirm these reserves totalled $2.32 million to February, 1981. Revised ore estimates are being prepared. Should the program confirm drill-indicated reserves and metallurgy, full scale development of the deposit will be carried out.

Thorncrest Explorations Limited (28.9% controlled by Mogul)

Thorncrest's only asset is a 14 claim property located in Township 149, Elliot Lake area of Ontario. The property covers the down-dip extension of the Stanleigh uranium bearing conglomerate formation. The Stanleigh Mine is slated for production in mid-1983 by Rio Algom Limited. A Rio Algom affiliate leased the Thorncrest property for a maximum term of 75 years for $5,000 per annum, subject to a sliding scale royalty if the property is put into production.

New Mount Costigan Mines Limited (33.8% controlled by Mogul)

New Mount Costigan retains a $0.50 per ton royalty on production from a portion of the Lake Ainslie barite-fluorite property of International Mogul. New Mount Costigan owns a 10% interest in Comstaff Proprietary Limited which holds numerous properties in northwestern Tasmania, Australia, prospective for base metal and tin mineralization. These properties have been subject to exploration since 1964 and exploration is presently being financed by Preussag Australia Proprietary Limited and Australia Anglo American Limited. A base metal-tin mineralized zone has been identified in the Renison area of the Comstaff lands, but it is too early in the overall program to assess the economic importance of the discovery.

Hydra Explorations Limited (23.6% controlled by Faraday)

Hydra holds interests in two gold properties. One is known as the Porcupine Peninsular property in the Timmins Area, which is leased to Pamour Porcupine Mines Limited for a production royalty per ton of ore removed from the property at the rate of $.0027 for each $1 of gold received and reverts to an 18% net profits interest after Pamour's capital payback. The other property, held through 50% owned Johnsby Mines Limited, is a large tonnage deposit averaging 0.055 oz gold per ton, located in the Indin Lake area north of Yellowknife, N.W.T. The Timmins property has been inactive for the past two years. The Indin Lake property has been inactive for several years. Much higher gold prices than now prevail are required to make these economically attractive.

Prairie Potash Mines Limited (38.6% controlled by Faraday)

Prairie Potash holds 16,000 acres of freehold potash leases in the Province of Manitoba. Negotiations are in progress to farm out these lands to International Minerals and Chemicals Corporation (Canada) Limited. The negotiations have been conducted on the basis that Prairie Potash would receive reimbursement of its costs to date and retain an overriding royalty on production. IMC Canada would undertake to carry out a drilling and feasibility program to examine the economics of a major potash mine on the Manitoba lands.

CONSOLIDATED FIVE YEAR FINANCIAL SUMMARY
(Thousands of dollars except per share amounts)

CONSOLIDATED STATEMENT OF INCOME

	Year ended December 31,				
	1980	1979	1978	1977	1976
Resource and other income					
Dividends and interest	$ 4,487	$ 3,345	$2,039	$1,108	$ 503
Oil and gas production	1,494	1,401	1,257	508	—
Gain on disposal of investments	18,421	5,443	4,919	3,620	2,444
Gain on disposal of mining properties	750	3,669	691	—	49
Royalty and other income	1,031	740	81	168	93
	26,183	14,598	8,987	5,404	3,089
Expenses	3,656	3,245	2,096	1,521	1,453
Income before undernoted items	22,527	11,353	6,891	3,883	1,636
Income taxes	1,219	71	—	—	—
	21,308	11,282	6,891	3,883	1,636
Minority interest in net income of subsidiary companies	7,176	5,128	2,602	496	1,056
Income from continuing operations	14,132	6,154	4,289	3,387	580
Discontinued operations	594	65	2	(1,218)	(700)
Income (loss) before extraordinary item	14,726	6,219	4,291	2,169	(120)
Recovery on investment by a consolidated company (net of minority interest of $382,000)	—	—	368	—	—
Net income (loss) for the period	$14,726	$ 6,219	$4,659	$2,169	$ (120)
Net income (loss) per common share	$2.84	$1.16	$0.87	$0.41	$(0.01)
Dividends per common share	$0.20	—	—	—	—

YEAR-END FINANCIAL HIGHLIGHTS

	1980	1979	1978	1977	1976
Working Capital	$20,059	$21,565	$21,344	$ 7,907	$ 9,763
Investments at Market	38,823	38,499	11,949	11,880	12,834
Total Liquid Assets	$58,882	$60,064	$33,293	$19,787	$22,597
Common Shareholders' Equity	$38,990	$25,553	$19,742	$15,405	$13,288
Per Share	$7.72	$5.11	$3.95	$3.08	$2.66
Total Assets	$78,722	$62,868	$53,447	$37,630	$32,953
Share Price High/Low (during the year)					
—Class A common	$9.83/ 4.85				
—Class B common	$8.00/ 4.25	$8.25/ 5.25	$7.62/ 3.90	$5.62/ 3.00	$4.05/ 3.00

Summary of Significant Accounting Policies

The financial statements of Conwest Exploration Company Limited, and the companies included herein on a consolidated basis, have been prepared by management in accordance with generally accepted accounting principles applied on a consistent basis. The principal accounting policies followed by Conwest are summarized below to facilitate review of the consolidated financial statements.

a) Long-term inter-corporate investments
The accompanying financial statements include, on a consolidated basis, the accounts of the Corporation and all of its subsidiaries. The following are the principal companies included on a consolidated basis:

	Conwest Equity
Basin Oil Exploration Limited	99%
Bay Copper Mines Limited	80
Chimo Gold Mines Limited	71
Consortina Incorporated	94
Conwest Exploration Company (Alberta) Limited	100
International Mogul Mines Limited	50
Ketza River Mines Limited	64

The Corporation's investment in companies in which it has significant influence is accounted for on the basis of cost plus the Corporation's net equity in undistributed earnings in such companies since the date significant influence was acquired. The following are the principal companies accounted for on the equity method:

	Conwest Equity
Adanac Mining and Exploration Ltd.	26%
Chance Mining and Exploration Limited	41
Hucamp Mines Limited	38
Liard Fluorspar Mines Limited	47
West Graham Mines Limited	48
	Mogul Equity
Consolidated Canadian Faraday Limited	31%

Other long-term investments are carried at cost or at cost less amounts written off to reflect a decline in value which is other than temporary.

b) Segmented reporting
The Corporation had previously prepared its consolidated statements of income and changes in financial position on a segmented basis to disclose its "resource" and "restaurant and hotel" operations separately. The Corporation's directors have determined that as a result of the disposition of the Corporation's operating interest in the "restaurant and hotel" operation, as set out in note 1 to the consolidated financial statements, substantially all of the Corporation's remaining operations are related to resource operations.

c) Mineral exploration interests
Direct exploration expenditures and the cost of acquisition of mineral exploration interests are charged to income in the year incurred.

d) Mineral resource interests
The cost of acquisition of mineral interests which contain economic mineral reserves and the costs incurred on mineral exploration interests subsequent to the determination that such interests contain economic mineral reserves are deemed to be mineral resource interests. These interests, together with development expenditures thereon, are deferred and carried as an asset to be amortized against future production. Upon disposal or abandonment, the net gain or loss related to such asset is reflected in the statement of income.

e) Oil and gas resource interests
The Corporation follows the full cost method of accounting for oil and gas interests whereby all costs of exploring for and developing oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties and costs of both productive and unproductive drilling. Proceeds received on disposal of properties are credited against such costs.

Depletion of costs accumulated, and depreciation of petroleum equipment, is provided using the composite units of production method based on total proven reserves of oil and gas.

f) Units of The Iron Bay Trust
Units of The Iron Bay Trust, included in shares with quoted market value, are carried at cost less accumulated amortization. The cost is being amortized on the units of production basis at the rate of 11.04 cents per ton.

g) Fixed assets
Fixed assets are carried at cost, and excluding those related to oil and gas resource interests, referred to in (e) above, are depreciated over their estimated useful lives as follows:

Buildings	—4% straight line
Furniture, fixtures and equipment	—10% straight line

Effective December 31, 1980 no further depreciation will be provided on buildings and equipment of discontinued operations held for disposal and the buildings held for development pending their disposition.

h) Earnings per share
Earnings per share are calculated using the weighted average number of common shares outstanding during the year. Dividend requirements of preferred shares are deducted for purposes of these calculations.

CONSOLIDATED BALANCE SHEET—December 31, 1980

(with comparative figures at December 31, 1979).

ASSETS

	1980	1979
Current		
Cash, term deposits and commercial paper	$24,228,000	$21,537,000
Accounts receivable and prepaid expenses	4,673,000	2,932,000
Inventory		258,000
Total current	28,901,000	24,727,000
Investments (quoted market value $38,823,000; 1979—$38,499,000 (note 2)	31,307,000	22,155,000
Oil and gas interests (note 3)	10,450,000	6,909,000
Mining interests	1,000	1,000
Fixed (note 4)	8,010,000	8,661,000
Other	53,000	415,000
	$78,722,000	$62,868,000

LIABILITIES AND SHAREHOLDERS' EQUITY

	1980	1979
Current		
Common share dividends payable	$ 505,000	
Bank loan	1,100,000	
Accounts payable and accrued liabilities	4,291,000	$ 2,775,000
Income taxes payable	1,222,000	
Current portion of long-term debt	1,724,000	387,000
Total current	8,842,000	3,162,000
Long-term debt (note 5)	940,000	3,457,000
Minority interest (note 6)	29,950,000	25,696,000
Shareholders' Equity		
Share capital (note 7)	10,174,000	15,000,000
Retained earnings	28,816,000	15,553,000
	38,990,000	30,553,000
	$78,722,000	$62,868,000

On behalf of the Board:

M.P. CONNELL, Director
J.C. LAMACRAFT, Director

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
For the year ended December 31, 1980
(with comparative figures for the year 1979)

	1980	1979
Retained earnings at beginning of year	$15,553,000	$ 9,742,000
Net income for the year	14,726,000	6,219,000
	30,279,000	15,961,000
Deduct		
Common share dividends	1,010,000	
Preferred share dividends	453,000	408,000
	1,463,000	408,000
Retained earnings at end of year	$28,816,000	$15,553,000

AUDITORS' REPORT

To the Shareholders of
Conwest Exploration Company Limited

We have examined the consolidated balance sheet of Conwest Exploration Company Limited as at December 31, 1980 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. For Conwest Exploration Company Limited and for those other companies of which we are the auditors and which are consolidated or accounted for by the equity method in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For other companies consolidated or accounted for by the equity method we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
April 27, 1981

Clarkson Gordon
Chartered Accountants

CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31, 1980
(with comparative figures for the year 1979)

	1980	1979
Resource and other income		
Dividends and interest	$ 4,487,000	$ 3,345,000
Oil and gas production	1,494,000	1,401,000
Gain on disposal of investments	18,421,000	5,443,000
Gain on disposal of mining properties	750,000	3,669,000
Royalty and other income	1,031,000	740,000
	26,183,000	14,598,000
Expenses		
General and administrative	2,463,000	1,234,000
Mineral exploration	281,000	1,014,000
Oil and gas production	180,000	231,000
Depletion and depreciation	535,000	460,000
Share of losses of companies accounted for on the equity method	197,000	103,000
Write down of investments		203,000
	3,656,000	3,245,000
Income before undernoted items	22,527,000	11,353,000
Income taxes	1,219,000	71,000
	21,308,000	11,282,000
Minority interest in net income of subsidiary companies	7,176,000	5,128,000
Income from continuing operations	14,132,000	6,154,000
Discontinued operations (note 1)	594,000	65,000
Net income for the year	$14,726,000	$ 6,219,000
Earnings per common share (note 7)		
Income from continuing operations	$2.72	$1.15
Net income for the year	$2.84	$1.16

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For the year ended December 31, 1980
(with comparative figures for the year 1979)

	1980	1979
Working capital derived from:		
Continuing operations	$ 2,870,000	$ 2,808,000
Disposal of investments and reduction in advances	48,750,000	15,751,000
Disposal of Griffith Mine royalty interest		5,120,000
Disposal of mining interests	750,000	1,166,000
Issue of common shares	174,000	
Issue of shares by subsidiaries	158,000	287,000
Proceeds on disposal of discontinued operation less working capital sold	620,000	
	53,322,000	25,132,000
Working capital applied to:		
Discontinued operations (note 1)	3,293,000	(185,000)
Dividends paid on common shares	1,010,000	
Dividends paid on preferred shares	453,000	408,000
Dividends to minority shareholders in subsidiary companies	1,618,000	1,112,000
Investments	37,921,000	17,303,000
Oil and gas interests	3,898,000	2,650,000
Preference shares purchased for cancellation by a subsidiary	1,144,000	461,000
Redemption of preference shares	5,000,000	
Acquisition of Chimo Gold Mines Limited, net of working capital acquired		3,152,000
Other	491,000	10,000
	54,828,000	24,911,000
Net increase (decrease) in working capital	(1,506,000)	221,000
Working capital at beginning of year	21,565,000	21,344,000
Working capital at end of year	$20,059,000	$21,565,000

Notes to Consolidated Financial Statements
December 31, 1980

1. Discontinued operations

(a) Effective December 31, 1980 the Corporation discontinued its involvement in the operation of hotels, restaurants and lounges.

On December 31, 1980, Consortina Incorporated, a subsidiary of the Corporation, sold all of its current assets and certain of the fixed and other assets of the restaurant, hotel and lounge operation to Chrysalis Restaurant Enterprises Inc. for proceeds of $3,875,000, as follows:

Cash	$ 750,000
Current liabilities of Consortina assumed by Chrysalis	861,000
12% debenture, repayable in equal monthly instalments to July 31, 1987, secured by a first fixed and floating charge on all assets of Chrysalis	2,264,000
	$3,875,000

The gain of $72,000, resulting from the above disposal, is included in income from discontinued operations. Substantially all the remaining fixed assets, at the three locations which were not sold, were leased to Chrysalis effective December 30, 1980.

Chrysalis is owned by two former officers and directors of Consortina, one of whom was also a minority shareholder of Consortina.

(b) With respect to the fixed assets at the three locations, which were not sold to Chrysalis, the following arrangements have been made:

(i) Subsequent to the year end, Consortina sold the fixed assets at the "Ascot Inn", previously leased to Chrysalis, for net consideration of $3,545,000, satisfied as follows:

Cash	$ 896,000
Assumption of existing first mortgage	874,000
10% fixed and floating charge debenture due March 1, 1986	1,775,000
	$3,545,000

The gain of $1,112,000 resulting from the above transaction will be recognized in income in 1981.

(ii) Subsequent to the year end, the Corporation agreed to sell the real property at "Bemelmans", currently leased to Chrysalis.

(iii) "The Ports" property is the subject of a rezoning application to develop an exclusive condominium residential development. Should the development proceed, "The Ports" property will be sold under the terms of an agreement in principle reached with the developer.

(c) The results of operations and changes in financial position for the discontinued hotel and restaurant operations have been reflected in the accompanying financial statements as follows:

	1980	1979
(i) Income from discontinued operations:		
Revenue	$13,211,000	$11,934,000
Cost of sales and administrative expenses	11,483,000	10,418,000
Depreciation and amortization	641,000	730,000
Interest on long-term debt	497,000	397,000
Income taxes		13,000
Minority interest in net income of discontinued operations	68,000	311,000
	12,689,000	11,869,000
	522,000	65,000
Gain on sale of discontinued operation	72,000	
	$ 594,000	$ 65,000
(ii) Working capital derived from (applied to) discontinued operations:		
Operations	$ 1,238,000	$ 1,119,000
Purchase of fixed assets	(2,022,000)	(498,000)
Repayment of long-term debt	(2,509,000)	(436,000)
	$(3,293,000)	$ 185,000

2. Investments

	1980 Cost or Carrying Value	1980 Quoted Market Value	1979 Cost or Carrying Value	1979 Quoted Market Value
Companies subject to significant influence:				
With quoted market value	$ 5,071,000	$ 9,924,000	$ 4,351,000	$11,682,000
Without quoted market value and advances	439,000		647,000	
	5,510,000	9,924,000	4,998,000	11,682,000
Other investments:				
With quoted market value	22,549,000	28,899,000	16,337,000	26,817,000
Without quoted market value and advances	3,248,000		820,000	
	25,797,000	28,899,000	17,157,000	26,817,000
	$31,307,000	$38,823,000	$22,155,000	$38,499,000

Because of the number of shares held in certain companies, the quoted market values are not necessarily indicative of the value of the investments, which may be more or less than indicated by market quotations.

During 1980 additional investments were made in Adanac Mining and Exploration Ltd. and Consolidated Canadian Faraday Limited, which companies are accounted for on the equity method in these financial statements. The excess of the consolidated cost of acquisition of these additional investments over the Corporation's equity, on a consolidated basis, in the net book value of the assets of Adanac and Faraday, amounting to $860,000, has been allocated to resource interests.

Excess amounts allocated to resource interests are amortized on a units of production basis.

3. Oil and gas interests

	1980	1979
Balance at beginning of year	$ 6,909,000	$ 4,729,000
Add:		
Acquisitions in year	328,000	1,855,000
Current year's expenditures	3,570,000	1,141,000
	10,807,000	7,725,000
Deduct:		
Depletion and depreciation	357,000	336,000
Expenditures charged to income		134,000
Proceeds on disposition		346,000
Balance at end of year	$10,450,000	$ 6,909,000

4. Fixed assets

	1980	1979
Land and buildings	$3,872,000	$3,675,000
Other land and buildings	168,000	
Furniture and equipment	146,000	102,000
	4,186,000	3,777,000
Accumulated depreciation	546,000	459,000
	3,640,000	3,318,000
Land, buildings and equipment of discontinued operations held for disposal, at cost less accumulated depreciation of $1,277,000 (1979 - $1,659,000)	4,370,000	5,343,000
	$8,010,000	$8,661,000

Oil and gas production equipment is included in oil and gas interests at cost less accumulated depreciation.

5. Long-term debt

	1980		1979
	Current	Long-term	Long-term
Mortgages			
-10% First mortgage payable, discharged January 19, 1981	$1,143,000		$1,143,000
-10¾% First mortgage payable, subsequently assumed by purchaser (note 1 (b)(i))	21,000	$ 860,000	881,000
-13½% First mortgage payable to be discharged on sale (note 1 (b)(ii))	550,000		
Total mortgages	1,714,000	860,000	2,024,000
Secured debentures of a subsidiary			1,343,000
Non-interest bearing notes payable $10,000 per annum	10,000	80,000	90,000
Total long term-debt	$1,724,000	$ 940,000	$3,457,000

6. Minority interest

Minority interest includes $10,000,000 cumulative redeemable non-voting first preference shares issued in 1978 by I.M.M. Ventures Limited, a wholly-owned subsidiary of International Mogul. The annual dividend rate on these shares from the date of issue to June 30, 1980 was an amount equivalent to 1⅜% plus ½ the prime rate of a Canadian chartered bank and thereafter to redemption at 1½% plus ½ the prime rate. The dividend rate at December 31, 1980 was 8.39% (March 31, 1981—10.63%).

These shares must be redeemed by Ventures on June 30, 1983, but may be redeemed, at the option of Ventures, prior thereto. All redemptions of these shares are at par value plus all accrued and unpaid dividends.

The provisions of these shares include a number of restrictions and covenants relating to the operations of Ventures. Contravention of any of these provisions provides the holder of these first preference shares with the right to require their immediate redemption by Ventures.

International Mogul has agreed with the holder that, under certain circumstances it will purchase the first preference shares from the holder and has secured this obligation by a pledge of certain of its commercial paper and investments with a quoted market value having a value of approximately $10,000,000.

7. Share Capital

	1980	1979
Authorized:		
1,000,000 First Preference Shares without par value		
An unlimited number of Class A common shares without par value		
An unlimited number of Class B common shares without par value		
Issued and outstanding:		
2,525,000 Class A common shares	$ 5,087,000	
2,525,000 Class B common shares	5,087,000	
500,000 Cumulative Redeemable First Preferred Shares, Series One		$ 5,000,000
2,500,000 Common Shares without par value		10,000,000
	$10,174,000	$15,000,000

(a) In conjunction with the continuance of the Corporation on June 6, 1980 under the Canada Business Corporations Act, the previously issued common shares of the Corporation were changed, on a share for share basis, into an equal number of Class A common shares, each of which carries the right to 100 votes, and into an equal number of Class B common shares, each of which carries the right to 1 vote. In all other respects the Class A and Class B common shares rank equally.

(b) On December 31, 1980 the Corporation's previously issued 500,000 Cumulative Redeemable First Preferred Shares, Series One were redeemed.

(c) On March 24, 1980 options were granted to purchase 25,000 previously authorized common shares of the Corporation at a price of $6.98 per share. The option was exercised in full on April 30, 1980. Pursuant to the terms of an incentive option loan scheme, the exercise of this option was financed by a non-interest bearing loan, included in "other shares and advances", made by the Corporation to a Trustee. The loan, which is secured by 25,000 Class A and 25,000 Class B common shares of the Corporation, is repayable at the rate of $17,000 per year in the years 1981 to 1984, with the balance of $105,000 due in 1985.

(d) On December 12, 1980 options were granted to purchase 100,000 Class B common shares at a price of $5.95 per share. These options may be exercised, on a cumulative basis, as to 33,900 shares in 1981, 33,100 shares in 1982 and 33,000 shares in 1983. Under the terms of the employee stock option plan 100,000 Class A common shares, on which options have not been granted, are reserved for future issuance. The potential dilution of earnings per share from the exercise of these options would not be material.

8. Income Taxes

At December 31, 1980 resource interests and fixed assets are carried at $18,461,000 (1979—$15,571,000) in the consolidated balance sheet, of which approximately $13,200,000 (1979—$10,500,000) is deductible for income tax purposes.

In addition, the Corporation and the companies consolidated herein have other deductions available to reduce or eliminate income taxes that would otherwise be recorded as a charge against income of future years. Details of these deductions, the tax effect of which has not been reflected in the consolidated financial statements, are approximately as follows:

Resource expenditures and capital cost allowances (available indefinitely)		$11,400,000
Non-capital losses which expire as follows:		
1981	$ 400,000	
1982	500,000	
1985	200,000	1,100,000
Balance, December 31, 1980		$12,500,000

These deductions are available to reduce or eliminate income taxes otherwise payable in future years. Since reductions or eliminations of this nature are recurring on a regular basis over a number of years and are typical of the Corporation's normal business activities, they are not considered to be extraordinary in nature and are reflected as a

reduction of current income taxes when realized. Approximately $8,400,000 (1979—$8,000,000) of deductions of this type were applied to eliminate income taxes that would otherwise have been recorded as a charge against income of the current year.

9. Related party transactions

At December 31, 1980 Central Patricia Limited owned 49% of the Corporation, which interest was subsequently increased to 57% of the Corporation's voting shares. As part of normal business operations the Corporation makes extensive use of Central Patricia's management and technical services. The Corporation's share on a consolidated basis of the cost of such services amounted to $1,695,000 in 1980.

10. Reclassification of 1979 comparative figures

Certain of the 1979 comparative figures have been reclassified to conform with groupings adopted in 1980. There has been no change in 1979 net income previously reported as a result of these reclassifications.

11. Subsequent event

On April 27, 1981 the Corporation announced its intention to make a share exchange offer to acquire all of the outstanding common shares and Series A preference shares of International Mogul, excluding the shares of International Mogul then owned by the Corporation. Each International Mogul common share tendered would be acquired in exchange for 1.75 Class B common shares of the Corporation. Each International Mogul Series A preference share tendered would be acquired in exchange for 2 Class B common shares of the Corporation. The Corporation presently holds 1,282,024 International Mogul common shares and no Series A preference shares. If the offer is accepted by all the minority shareholders of International Mogul the Corporation will be required to issue 2,582,483 Class B common shares.

Printed in Canad